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Suzanne Henderson

**NON-SURFACE LEASE**

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**NO SURFACE USE  
OIL AND GAS LEASE**

THIS AGREEMENT is made effective as of this 10 day of October, 2008, between **MICHAEL BAILEY AND CYNTHIA BAILEY, AS LESSOR, WHOSE ADDRESS IS 511 E. JOHN CARPENTER FRWY., STE. 200, IRVING, TEXAS 75062** and **CARRIZO OIL & GAS, INC., as Lessee, whose address is 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.**

**WITNESSETH:**

1. Grant. Lessor in consideration of Ten Dollars (\$10.00) and other good and valuable consideration in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of exploring for, developing, producing and marketing oil and gas along with all other liquid and gaseous hydrocarbon substances produced in association herewith, on lands owned or claimed by Lessor, from the following described land in Tarrant County, Texas, to-wit:

**1.545 gross acre/s, more or less, described as Lot 10, A.C. Benge Addition to the City of Arlington, Tarrant County, Texas more particularly described in that certain Deed dated January 8, 2007, by and between William M. Gladbach and wife, Sonjia C. Gladbach, as grantors, and Michael Bailey and Cynthia Bailey, as grantees, and recorded as Instrument # D207012190, of the Official Public Records of Tarrant County, Texas, hereinafter referred to as the "Lease Premises".**

This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included with the boundaries of the land particularly described above, including the minerals owned by Lessor located in streets, roads, alleys, easements and rights of way adjacent to Lessor's lands.

**Notwithstanding anything to the contrary in this lease, other than seismic operations expressly permitted herein, it is agreed and understood that there shall be no surface operations on any of the lands covered by this Lease.**

2. Term. This is a paid up lease and subject to the other provisions herein contained, this lease shall be for a term of two (2) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. Royalty. The royalty share for all oil and gas under this Lease shall be 26%.

Lessor's royalty shall never bear or be chargeable with, either directly or indirectly, any part of the costs or expenses of production, gathering, dehydration, compression, transportation, manufacturing, processing, treating, marketing, or depreciation of any plant or other facility or facilities or equipment for processing or treating of the oil or gas produced from the Lease Premises or any other costs of a similar nature. Gas shall be priced at the point of sale to a third party and not at the well unless an arms length sale to a third party occurs at that point.

Upon written request and reasonable notice by Lessor, Lessee shall make available to Lessor or Lessor's authorized representative for inspection and examination the books and accounts, receipts, well records, and all contracts and other records pertaining to the production, transportation, sale, and marketing of the oil and gas produced on the Lease Premises which relate to or have bearing on, in any manner, the royalty to be received by Lessor hereunder. Any inspection or examination shall be done at Lessee's principal place of business during normal working hours.

Any use of oil or gas produced from gas well operations on or under the Lease Premises shall be included in calculating revenue and payment of royalties from the well production.

The agreed acreage for the purpose of computing the Lessor's fractional share of bonus, royalty and other payments shall also include Lessor's proportionate share of any street, alley, highway, railroad, canal, river, body of water adjacent to or contained within the Subdivision, or, if property is not included in a Subdivision, any such acreage immediately adjacent to Lessor's property. Lessee shall calculate the proportion of royalties payable to each Lessor under this Lease. Upon written request from Lessor, Lessee will provide Lessor with documentation of the title and other details used to arrive at the royalty interest of Lessor.

The terms and provisions of this Provision 3 will survive any release or termination of the Lease.

This Provision 3 shall be binding upon and inure to the benefit of the Lessor and his or her respective heirs, successors and assigns, and all terms, provisions and reservations contained in this Lease shall be deemed as covenants running with the land.

4. Shut-Ins. If at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas or other substances covered hereby in paying quantities, but all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred for the purpose of maintaining this Lease. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow line, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to Lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety (90) day period, Lessee shall pay or tender, by check or draft of Lessee, as royalty, a sum equal to Twenty Five Dollars (\$25.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety (90) day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited or paid directly to Lessor or their successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same, Lessee may, in lieu of any other method of payment herein provided, pay or tender shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of Lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last date for payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or part, liability for payment hereunder shall rest exclusively on the then owners of this lease, severally as to acreage owned by each.

5. Pooling. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof as to oil and gas, or either of them, with any other land covered by this lease, and/or with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said Lease Premises in compliance with the spacing rules of the Railroad Commission of Texas, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Unless otherwise provided under the terms and provisions contained herein, units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of ten percent (10%) thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the Lease Premises are situated an instrument describing and designating the pooled acreage as a pooled unit; and upon such recordation the unit shall be effective as to all parties hereto, their heirs, successors and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the Lease Premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, such operations shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of paragraph 5 of this lease;

and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis - that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease (or in each such separate tract) and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership any shut-in production royalty which may become payable under this lease. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as above provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the Lease Premises.

Notwithstanding the foregoing, Lessor shall never receive less than its royalty share of all proceeds received by Lessee from the sale or disposition of oil and gas produced and marketed pursuant to this Oil and Gas Lease. And likewise, Lessee shall never be liable to Lessor for any amount of royalties payable hereunder that is greater than the actual amount realized by Lessee from the sale or disposition of such oil and gas produced and marketed under the terms and provisions of this Oil and Gas Lease.

6. Reworking. If at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land, or from the land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a well thereon within 90 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas or other mineral is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas, or other mineral is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 90 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the Lease Premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and closer than 330 feet of and draining the Lease Premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

7. Assignment. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. Option To Extend. None.

9. Retained Acreage. No obligation to reasonably develop the Lease Premises shall arise during the primary term. Should oil, gas or other mineral in paying quantities be discovered on said premises, then after the expiration of the primary term, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator, but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities. If after the expiration of the primary term, Lessor considers that operations are not at anytime being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.

10. Lessor agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward satisfying same. Lessee agrees to pay for the costs of any lien subordination that Lessee may request from Lessor's lender. It is agreed that if this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above as Lessor fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Force Majeure. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing any oil, gas or other minerals therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by operation of force majeure, and Federal or state law or any order, rule or regulation, including zoning or permitting rules of any governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the Lease Premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding. Anything in this lease to the contrary notwithstanding, lessee may **not** transport third party gas on and across the Lease Premises.

12. In the event of any conflict with the above provisions, the provisions of paragraphs 12 through 24 shall control.

13. Notwithstanding any other provision hereof, this lease covers only oil, gas, sulphur and other liquid and gaseous hydrocarbons produced through a borehole.

14. Vertical Pugh Clause. If at any time the maximum time for the commencement of drilling or reworking operations of a well expires without the commencement of the well, or upon the expiration of the Primary Term if the Lease is not maintained by continuous drilling or any other provision contained herein, this Lease will terminate as to all depths 100 feet below the stratigraphic equivalent of the base of the deepest producing formation.

15. Other than provided in the Texas Natural Resources Code, Lessee may not require execution of a division order as a condition of royalties, and no division order signed by Lessor will be construed to modify the terms of this Lease.

16. Continuous Development. This lease shall terminate at the end of the primary term except as to lands included within a pooled unit, or if such lands are not pooled, as to 40 acres for each oil well and 640 acres for each gas well (or such larger amounts as may be prescribed or permitted for oil well and gas well spacing under the field rules set by the Railroad Commission of Texas) drilled, then being drilled or reworked or then producing in paying quantities. As to each well then drilled, being drilled or reworked, this lease, as to the stated acreage with respect thereto, shall continue so long as the drilling or reworking operations are continued with no cessation of more than 90 consecutive days. As to tracts upon which the drilling or reworking operations result in production, and as to tracts producing at and after the end of the primary term, this Lease shall continue as to each tract so long as production continues from the tract with no cessation of more than 90 consecutive days or this lease is otherwise held by other provisions contained herein. Each tract retained under the provisions of this paragraph shall be compact and oriented in a manner consistent with the preferred orientation of a horizontal Barnett shale well or other relevant formation, considering the shape of the relevant lands.

17. Lessor makes no warranty, either express or implied, of any kind with respect to, and has no obligation to defend, title to the Land.

18. In the event that Lessor is required to employ legal counsel for the reasonable

enforcement of any provision of this Lease and prevails, Lessor will be entitled to recover from Lessee reasonable attorney's fees and expenses incurred by Lessor.

19. Operations on or production from a pooled unit will maintain this lease in force only as to the land within the pooled unit. As to land outside a pooled unit, this lease may be maintained in force only by operations on or production from the excluded acreage or, by any other provision contained herein. Upon Lessor's written request, Lessee shall forward to Lessor at the above address a copy of the recorded designation or dissolution of pooled unit.

20. Seismic Operations. Lessee shall pay for all damages incurred to the Land which result from its seismic operations. Other than seismic operations as permitted herein, by execution and delivery of this Lease, Lessee does not otherwise obtain the right to conduct exploration, excavation or drilling operations upon the surface of any portion of the Land.

21. Lessee agrees that all of Lessee's operations on the land will be subject to and will be conducted in compliance with all Federal, State, County, City and other laws, rules, ordinances, regulations and requirements. Lessee will assume all costs of insuring that its operations comply with all applicable laws.

22. Indemnity. LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, ATTORNEY'S FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S OPERATIONS ON THE LAND OR LESSEE'S MARKETING OR PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS SUCCESSORS AND ASSIGNS, AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS.

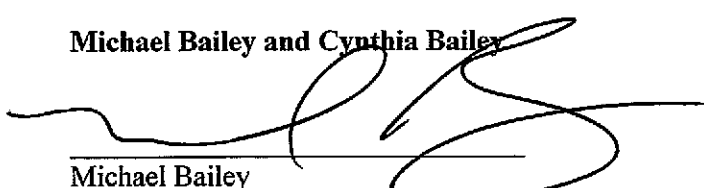
23. All sums due Lessor under this lease are payable in Tarrant County, Texas.

24. Reference is made to the Additional Provisions contained in Exhibit "A" attached hereto and incorporated herein by reference.

IN WITNESS WHEREOF, this Lease is executed to be effective as of the date first above written.

**LESSOR:**

Michael Bailey and Cynthia Bailey

  
Michael Bailey

  
Cynthia Bailey

**LESSEE:**

CARRIZO OIL & GAS, INC.

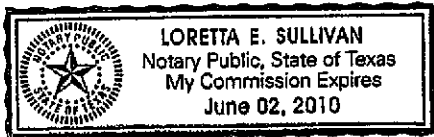
  
Carrizo Agent

[Acknowledgements of following page]

STATE OF TEXAS                   §  
  §  
COUNTY OF Dallas       §

Before me, the undersigned authority, on this day personally appeared Michael Bailey and Cynthia Bailey, and known to me to be the people whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

Given my hand and seal of office this 10th day of October, 2008.



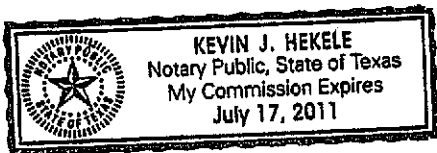
Loretta E. Sullivan

Notary Public, State of Texas  
My commission expires: June 2, 2010

STATE OF TEXAS                   §  
  §  
COUNTY OF TARRANT       §

Before me, the undersigned authority, on this day personally appeared Adam Butcher as an authorized Carrizo agent, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

Given my hand and seal of office this 1 day of \_\_\_\_\_, 2008.



KJH

Notary Public, State of Texas  
My commission expires: 7/17/2011

## EXHIBIT "A"

Attached to and made a part of that certain No Surface Use Oil and Gas Lease dated 10/10, 2008 between **Michael Bailey and wife, Cynthia Bailey**, as Lessor, and Carrizo Oil & Gas, Inc., as Lessee.

In the event of conflict between the following Additional Provisions and any provisions contained in the printed form of this lease, the Additional Provisions shall control.

### ADDITIONAL PROVISIONS

A) **MEMORANDUM.**

Lessor agrees to execute, along with this lease, a written Memorandum of Oil and Gas Lease in substantially the form attached as Exhibit "B" below, to be filed by Lessee in the appropriate real property records of Tarrant County, Texas, notifying the public of the existence of this lease, describing the parties and the land covered hereby.

B) **NOTICE OF ASSIGNMENT.**

Notwithstanding any language in the printed portion of this lease, prior to any assignment of a working interest in this Lease to parties other than to Marsh Operating Company, Lessee agrees to notify Lessor of the name and address of the proposed assignee(s) and to obtain Lessor's prior written consent, which consent shall not be unreasonably withheld or delayed. Every such assignment or sublease which shall be made without the written consent of Lessor first had and obtained shall be void, and although made with the written consent of Lessor, any such assignment or sublease shall, nevertheless, be void unless it also contains a limitation in favor of Lessor requiring that the written consent of Lessor must be obtained prior to any further working interest assignment or subletting of the rights of Lessee hereunder. Notwithstanding any assignment made in accordance with the terms of this paragraph, Lessee shall remain jointly and severally responsible for all obligations, covenants and liabilities under this lease.

C) **INDEMNITY.**

Without limiting the generality of Paragraph 22 of the printed portion of this lease, Lessee, for itself and its successors and assigns, hereby agrees to indemnify, defend, and hold Lessor, its officers, directors, employees and its successors and assigns (including, but not limited to any tenants, purchasers of lots or residences upon the Lease Premises) harmless from and against any and all claims, demands, causes of action, judgments, losses, liabilities, costs and expenses of every kind and character resulting from injury to or death of any person, or damage to any property, arising out of, incident to or in connection with, directly or indirectly, any of the operations or activities conducted by Lessee or any of its assignees, or any of their respective contractors, subcontractors, representatives, employees, or agents, pursuant to this lease and/or upon any lands pooled with the Lease Premises in accordance with the terms hereof ("Adjacent Pooled Lands").

D) **COVERED MINERALS.**

Notwithstanding anything to the contrary contained in the printed portion of this lease, this lease covers and grants the rights to explore for and produce only oil, gas, casinghead gas, liquid hydrocarbons, condensate, and constituent substances produced in association therewith ("covered materials") and there is specifically excluded from this lease any other mineral of any nature or kind whatsoever, including, but not limited to, sand, clay, gravel, coal, iron ore and uranium ("excluded minerals"), which excluded minerals are hereby excepted from this lease and reserved to Lessor, together with the right of ingress and egress for the purpose of exploring for, producing and removing such excluded minerals. The granting clause of this lease is hereby modified to such extent as is necessary so that the rights granted herein shall relate only to the covered minerals, and the term "minerals" and "other minerals," except as clearly indicated otherwise in this clause, wherever they may appear in this lease shall be deemed to relate and refer only to the covered materials.

E) **ROYALTY.**

Without limiting the generality of Paragraph 3 of the printed portion of the lease, up to the point of first third party arms length sale to a party that is not a Gathering Affiliate, as hereinafter defined, all gross oil, gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form.

It is the intent of the parties that the provisions of such Paragraph 3 and this Paragraph are to be fully effective and enforceable and are not to be construed as "surplusage" under the principles set forth in Heritage Resources v. NationsBank, 939 S.W.2d 118 (Tex. 1997). If gas produced

from or attributable to the Lease Premises is gathered by Lessee or any of its affiliates, or any of their successors or assigns (each a "Gathering Affiliate"), Lessor's royalty shall not be charged with any of the costs, charges and expenses described in Paragraph 3 or the first sentence of this paragraph. Furthermore, if gas produced from or attributable to the Lease Premises is purchased by a Gathering Affiliate, the royalty paid to Lessor shall be based on net proceeds received by the Gathering Affiliate upon the resale of such gas.

**F) SHUT-IN ROYALTY; FORCE MAJEURE.**

Notwithstanding the provisions of Paragraph 4 of the printed portion of this lease, the amount of the shut-in royalty payment shall be \$100.00 per net mineral acre per year. Furthermore, this lease cannot be continued in force solely by the shut-in royalty payments provided for in Paragraph 4, for any one shut in period of more than twenty four (24) months, or from time to time not to exceed three years in the aggregate during times all wells are actually and physically shut in during each successive 15 year period the Lease is in effect, and this provision shall constitute an express limitation on the provisions for the payment of shut-in royalty under Paragraph 4. The obligation of Lessee to pay shut-in royalty is a condition and not a covenant.

This lease cannot be continued in force or extended pursuant to the provisions of Paragraph 11 of the lease ("Paragraph 11") for a period of more than eighteen (18) months, or from time to time not to exceed twenty-four (24) months in the aggregate, and this provision shall constitute an express limitation on the provisions of Paragraph 11.

**G) ACCOUNTING AND PAYMENT.**

Accounting and payment to Lessor of royalties from the production of oil and gas from any well shall commence no later than one hundred twenty (120) days after the commencement of production. Thereafter, all accountings and payments of royalties or overriding royalties for gas, oil, condensate or other liquid hydrocarbons shall be made on or before sixty (60) days after the end of the calendar month in which the production occurred. Any royalties or other payments provided for in this lease which are suspended or not paid to Lessor within the time period specified therefore shall accrue interest at the lesser of (a) Prime Rate published by the Wall Street Journal (Southwest Edition) plus three percent (3%) or (b) the highest rate which may be legally contracted for by parties in the position of Lessor and Lessee, from the due date until paid. Acceptance by Lessor of royalties which are past due shall not act as a waiver or estoppel of its right to receive or recover any and all interest due thereon under the provisions hereof unless the written acceptance or acknowledgment by Lessor to Lessee expressly so provides. The receipt by Lessee, or Lessee's operator, from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee, or Lessee's operator, acquiring legal or equitable title to those proceeds, but Lessee, or Lessee's operator, will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from or attributable to the Lease Premises or pipeline company transporting production from or attributable to the Lease Premises, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor, all royalties due Lessor, together with interest, if such royalties are not timely paid.

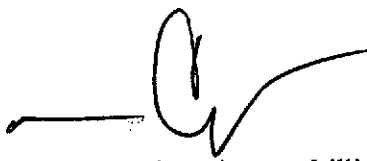
**H) RIGHT TO INSPECT RECORDS.**

Lessor shall have the right at all reasonable times, personally or by representative, to inspect, copy and audit the books, accounts, contracts, records and data of Lessee pertaining to the development, production, saving, transportation, sale and marketing of the oil, gas and other hydrocarbon and non-hydrocarbon substances produced from or attributable to the Lease Premises or otherwise produced from wells located on the Adjacent Pooled Lands. Lessor shall have the right to examine at Lessor's offices any relevant Gas Sales Contract or Gas Processing Contract covering the sale or processing of gas produced from or attributable to the Lease Premises or otherwise produced from wells located on the Adjacent Pooled Lands and any relevant sales agreement for the disposition of oil or condensate produced from or attributable to the Lease Premises or otherwise produced from wells located on the Adjacent Pooled Lands, to the extent that Lessee is legally or contractually able to share such information. Lessor shall have the right to require Lessee to furnish to Lessor full information as to all oil, gas and liquefiable hydrocarbons produced and sold from or attributable to the Lease Premises or otherwise produced and sold from wells located on the Adjacent Pooled Lands.

**I) POOLING.**

Notwithstanding any language in the printed portion of this lease to the contrary, unless otherwise agreed to, in writing in advance, by Lessor, (i) not less than all of the Lease Premises shall be included in any pooled unit formed under the provisions of this lease; and (ii) units pooled for oil shall in no event exceed 40 acres and units pooled for gas shall in no event exceed 640 acres, plus a ten percent (10%) tolerance. However, ~~twelve months~~ after either the expiration of the primary





term or ~~upon~~ cessation of continuous drilling operations, whichever occurs later, if Lessee has not drilled more than one well on lands pooled with the Leased Premises, the pooling authority shall be reduced from 640 acres down to 320 acres plus a 10 % tolerance.

**J) NON-USE OF SURFACE.**

Lessee acknowledges that the intended use of the surface of the Lease Premises is commercial and/or residential development. As a result, Lessee acknowledges and agrees that it is an express condition of this lease that Lessee shall not use the surface of the Lease Premises for any purpose whatsoever, and Lessee shall not have an easement or license to use any part of the surface of the Lease Premises, it being understood and agreed that all exploration, drilling and other surface operations shall be conducted, if at all, wholly upon the Adjacent Pooled Lands. All operations hereunder shall be conducted by Lessee in a manner to minimize any adverse impact on the intended use and enjoyment of the Lease Premises, taking into account physical, visual, and auditory effects of such operations.

In view of the intended use of the surface of the Lease Premises for commercial and/or residential development, with respect to any operations conducted on Adjacent Pooled Lands within 600 feet of the Lease Premises (the "Applicable Area"), Lessee agrees as follows:

- a. Lessee agrees that all permanent facilities related to production and operations which are located within the Applicable Area will be subject to the City of Arlington drilling ordinance and the terms of the Lease covering the drillsite tract.
- b. Lessee agrees that, except in the case of emergencies where prompt actions are required to protect life or property or to prevent waste, all lease maintenance and repair activities within the Applicable Area shall be conducted during normal working hours.
- c. Lessee shall maintain any well site or area of operations within the Applicable Area in a neat and orderly fashion, including all equipment and materials located thereon. Lessee shall keep all permanent surface equipment located within the Applicable Area in good state of repair and appearance.
- d. Lessee shall promptly remove any unused materials, pipe and/or equipment from the Applicable Area.
- e. Lessee shall exercise reasonable efforts to control the noise level resulting from its activities on the Adjacent Pooled Lands. In the event an engine must be used on the Adjacent Pooled Lands, Lessee shall install a muffler which will minimize the sound level of the engine.
- f. If a compressor is placed within the Applicable Area, Lessee will take all reasonable measures to shield it from view and muffle the sound generated by the compressor. The measures shall include construction of sound walls or other housing around the compressor station, the installation of adequate mufflers and other measures as may be necessary to minimize the noise generated by the compressors.
- g. Any pump jacks located on the Adjacent Pooled Lands shall be run by electric motors.
- h. Lessee shall not cause, suffer, or allow any amounts of trash or litter to accumulate within the Applicable Area.

Without limiting the generality of the foregoing, upon request Lessee agrees to provide Lessor with notice of planned and ongoing operations and activities conducted within the Applicable Area pursuant to this lease. Such notices shall be written and shall occur within twenty (20) days after request by Lessor. The content of such notice shall include at a minimum the nature and timing of such operations and activities, the purpose of such operations, and changes or alterations in operations and activities about which Lessor has been previously notified. Lessee agrees to exercise good faith efforts to schedule such operations at such times and in such a manner so as to minimize the impact and/or interference of such operations with all surface development on the Lease Premises.

**K) LIMITED SEISMIC OPERATIONS.**

Lessee or its agents shall provide Lessor with at least ten (10) days notice of its intent to conduct permitted seismic operations. No seismic operations whatsoever may be conducted on the Lease Premises except that Lessee may use geophones or other sound detection devices on the Lease Premises. All permitted seismic operations shall be performed in a manner consistent with that of a reasonably prudent operator under similar circumstances. Additionally, Lessor shall receive compensation for damages according to prevailing industry standards in the area.

**L) INSURANCE.**

- a. Lessee agrees during the term of the lease to carry, at its own expense, with insurance companies reasonably acceptable to Lessor and authorized to do business in the State of Texas, the following minimum insurance coverages:

- (i) Worker's Compensation and Employer's Liability Insurance to cover and include any liability (up to the maximum recoverable under applicable statutes) under or for the worker's compensation laws of the state of Texas, including provisions that claims in rem will be treated as in personam;
  - (ii) Automobile Liability with a minimum combined single limit of \$1,000,000 for Bodily Injury and Property Damage and including coverage for all owned, non-owned and leased vehicles;
  - (iii) Comprehensive General Liability Insurance, including contractual liability insuring the indemnity from Lessee to Lessor set forth in this lease, with minimum Bodily Injury, Sickness or Death limits of one million dollars (\$1,000,000) each person and one million dollars (\$1,000,000) per occurrence and Property Loss or Damage limits of one million dollars (\$1,000,000) per occurrence and two million dollars (\$2,000,000) aggregate operations, and products (including completed operations);
  - (iv) Umbrella Liability Insurance with a minimum limit of ten million dollars (\$10,000,000) per occurrence;
  - (v) Pollution and Clean-Up Liability Insurance with a minimum limit of five million dollars (\$5,000,000); and
  - (vi) Well Control and Extra Expense Insurance with a minimum limit of ten million dollars (\$10,000,000).
- b. All insurance policies shall:
- (i) Provide for thirty (30) days prior written notice to Lessor of the cancellation, expiration or reduction of coverage under, or a material change in, any policy;
  - (ii) Contain waivers of subrogation and right of recovery by Lessee's insurance underwriters against Lessor for injuries, death, losses or damages covered by those policies; and
  - (iii) Cover Lessor as an additional insured under the policy.
- c. Lessee shall furnish Lessor with detailed evidence with Lessee's certificates of insurance evidencing the above-described coverages within ten (10) days of receipt of Lessor's written request. Thereafter, Lessee shall provide its certificates of insurance at least thirty (30) days prior to the expiration of previously certificated insurance coverage. In lieu of providing its certificates of insurance, Lessee may provide copies of applicable insurance policies.
- d. To the extent that any of the insurance requirements of this paragraph are not evidenced by Lessee's certificates of insurance, Lessee represents and warrants that the requirements are nonetheless fulfilled by the applicable policies of insurance.

**M) PARTIAL TERMINATION.**

In the event Lessee commences drilling operations upon lands pooled with this Lease prior to the expiration of the primary term, then twelve months after either the expiration of the primary term or ~~upon~~ cessation of continuous operations, whichever occurs later, this lease shall terminate as to all acreage not then included within any proration or pooled unit and as to all depths lying one hundred feet (100') below the base of the deepest producing formation penetrated in the wells drilled on such proration or pooled units which are producing gas in commercial quantities or which are capable of production but are shut-in under the provisions of this lease. This termination shall be on a well-by-well, unit-by-unit basis, such that this lease may terminate at different depths in different locations given the depth of the well in each unit.

**N) BREACH AND DEFAULT.**

Notwithstanding anything herein to the contrary, nothing in the printed portion of this lease is intended to modify or alter the effectiveness or application of any condition contained herein.

**O) OPERATIONS.**

Whenever used in this lease, the word "operations" shall mean and include only actual operations for any of the following and shall not include activities conducted in preparation for such actual operations: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search of or in an endeavor to obtain production of oil or gas. Without limiting the generality of the foregoing, drilling and reworking "operations" means the actual drilling or reworking of a well by a complete rig capable of drilling to the depth specified in the application for a drilling permit submitted to the applicable governmental authority and with the derrick, motors and equipment erected, installed and in place on the ground and the drill bit rotating or capable of performing and completing the required reworking operation, as the case may be.

**P) MINIMUM WELL DEPTH.**

Lessee shall not conduct any operations whatsoever under the Lease Premises at subsurface depths of less than five hundred (500) feet.

EXHIBIT "B"

UTA MEMORANDUM

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

MEMORANDUM OF OIL AND GAS LEASE

THIS MEMORANDUM OF OIL AND GAS LEASE is made effective as of this 10 day of October, 2008, between MICHAEL BAILEY AND CYNTHIA BAILEY, AS LESSOR, WHOSE ADDRESS IS 511 E. JOHN CARPENTER FRWY., STE. 200, IRVING, TEXAS 75062, and CARRIZO OIL & GAS, INC., as Lessee, whose address is 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.

WHEREAS, hereas Lessor, on the same date as set forth above, did grant, lease and let unto Lessee a paid-up Oil and Gas Lease ("Lease") with a two year (2) primary term from said date covering the Lease Premises as described therein including the Land more fully described below, as follows:

1.545 gross acre/s, more or less, described as Lot 10, A.C. Bengé Addition to the City of Arlington, Tarrant County, Texas more particularly described in that certain Deed dated January 8, 2007, by and between William M. Gladbach and wife, Sonjia C. Gladbach, as grantors, and Michael Bailey and Cynthia Bailey, as grantees, and recorded as Instrument # D207012190, of the Official Public Records of Tarrant County, Texas, hereinafter referred to as the "Lease Premises".

This Memorandum of Oil and Gas Lease may be executed in counterpart and is filed in lieu of the original Lease to provide public notice of said Lease, which Lease is incorporated herein by reference hereto and is subject to all the terms and provisions set forth therein. Lessor and Lessee both possess an executed original of the Lease. Those parties having legal standing to inquire may request a copy from such parties.

LESSOR

Michael Bailey and Cynthia Bailey

Michael Bailey

Cynthia Bailey

LESSEE:

CARRIZO OIL & GAS, INC.

Carrizo Agent

STATE OF TEXAS

COUNTY OF Dallas

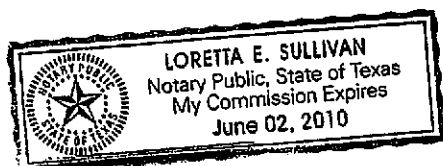
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Before me, the undersigned authority, on this day personally appeared Michael Bailey and Cynthia Bailey, and known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

Given my hand and seal of office this 10th day of October, 2008.



*Loretta E. Sullivan*

Notary Public, State of Texas

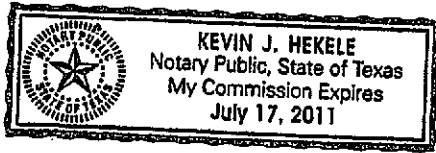
My commission expires: June 2, 2010

[Acknowledgements on following page]

STATE OF TEXAS           §  
                                     §  
COUNTY OF TARRANT   §

Before me, the undersigned authority, on this day personally appeared Adam Butcher as an authorized Carrizo agent, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

Given my hand and seal of office this \_\_\_\_ day of \_\_\_\_\_, 2008.



*Kevin J. Hekele*

Notary Public, State of Texas  
My commission expires: 7/17/2011